DEPARTMENT OF STATE INSTRUCTION

UNCLASSIFIED
(Security Classification)

FOR DC USE ONLY

81

AID-22 NO.: W-71, February 13, 1962,

INFO SUBJECT: Investment Guaranties

RMR-1
L-3
FE-4 TO:
E-3

Joint State/AID Instruction
American Embassy, Djakarta, Indonesia

Djakarta W-71

1. Due to the changes in the AID Investment Guaranty Program, effected by the AID legislation in September 1961, (See CW-3984 of November 6, 1961), the authority to negotiate an investment guaranty agreement pursuant to the draft note amendment text transmitted to the Embassy under Djakarta ICATO A-405 of September 18, 1959 is hereby rescinded.

2. ACTION REQUESTED. The Dept. and AID would appreciate a report by the Embassy on the progress, if any, of the abovementioned negotiation, and the Embassy's estimate of the possibility of concluding an investment guaranty agreement during the coming year. Any comments on the GOI's present attitude toward U.S. investment as it affects the institution of the Investment Program in Indonesia would be helpful as well as its attitude toward foreign investment in general.

611.9843/2-1362

3. As soon as the above requested report on the status of negotiations with the GOI is received, a revised agreement text will be provided, if, in the opinion of the Embassy the GOI would be receptive to a renewed approach for the institution of the Investment Guaranty Program, by agreement.

4. Current information re Investment Guaranty Program may be transmitted to GOI at discretion of Embassy. (See attachment).

RUSK

Enclosures: (2 each)
1) Handbook
2) Copy of revised AID press release No. 744 of Oct. 27, 1961 (CW-3984)
3) List of PC's & DOT's

(1)

UNCLASSIFIED
(Security Classification)

DRAFTED BY: E.A.Burton, AA/DF-IGD EAB

APPROVED BY: Charles B. Warden, Chief, IGD

CLEARANCES: L/E:A.Tendler
L/T:S.Nilsen
ED:F.LaMacchia

SPA: [redacted] Edward J. Thrasher
FE/B1:L.M.Durso

.IGIN/ACTION

AID-11

RM/R	REP	AF
2	1	
ARA	EUR	FE
		2
NEA	CU	INR
		5
E	P	IO
3		
L	FBO	ICA
2		
AGR	COM	FRB
	6	
INT	LAB	TAR
5		2
TR	XMB	AIR
2		3
ARMY	CIA	NAVY
5	10	3
OSD	USIA	NSA
3		3

Action Copy

DEPARTMENT OF STATE

AIRGRAM

(Departmental and Foreign Service)

611.9843/62862
XR 898.05-11

A-629 NO.

OFFICIAL USE ONLY

1962 JUL 3 AM 11 05

ANALYSIS & DISTRIBUTION BRANCH

TO : DEPARTMENT OF STATE

FROM : Amembassy DJAKARTA

DATE: June 28, 1962

SUBJECT : Investment Guaranties in Connection with Production Sharing Arrangements

REF : Dept. instruction W-71 dated 2/13/62

JOINT EMBASSY/USAID MESSAGE

In recent months the GOI has shown an increasing interest in production sharing arrangements for financing certain enterprises, and on May 18 the President in a major economic message reiterated his approval of this concept. While no details have been announced the broad outlines of the concept are clear from several of these agreements which are now in effect. Some of these have been described in Embassy despatches as follows: No. 554 dated 1/26/61 (Permina oil), No. 738 dated 5/7/62 (palm oil plant), and No. 807 dated 5/28/62 (coffee and rubber processing). Since forwarding these despatches two more prospects for production sharing arrangements have come to the attention of the Embassy. AID

Representatives of the Kaiser Aluminum Company were in Djakarta recently for preliminary discussions which might lead to an investment in Sulawesi nickel in the magnitude of $100 million. They indicated that their company would be willing to consider financing this large project on a production sharing basis. The U. S. Plywood Corporation is now seeking timber resources which would support a veneer and plywood manufacturing installation with an annual output valued at about $20 million. The company is considering several areas for development including Indonesia, the Philippines, South Viet Nam, North Borneo, Serawak, Thailand, and India. The representative of the company who was in Djakarta early in June stated that the production sharing method of financing a veneer-plywood installation appears practicable, and he thought his company would give it serious consideration. For both projects, the American companies would buy the entire

FORM DS-323 11-61

OFFICIAL USE ONLY

FOR DEPT. USE ONLY
☒ In ☐ Out

Drafted by: ECON/EMB:JAVanSwearingen/USAID:KNathan:amo

Contents and Classification Approved by: ECON/EMB:JWLydman

Clearances: USAID:GGurow

A2-49

0 0 4 0 4

OFFICIAL USE ONLY

output.

Because of these and other similar projects described in earlier despatches, it appears propitious once again to raise with the GOI the question of an investment guaranty agreement. It would appear that such an agreement would need to be based on the production sharing concept. Embassy/USAID reading of the pertinent legislation suggests that a "production sharing guaranty program" might be formulated. Production sharing involves a foreign loan for the purchase of equipment rather than an equity investment, and this is encompassed by Section 221(b) of PL 87-195 (see Section-by-Section Analysis of the Foreign Assistance Act of 1961). The legislation (Section 223(b) also guarantees the creditor against some breaches of contract, a feature which would be of importance to the creditor in a situation such as that described for the West German-financed palm oil plant (Embassy despatch 738). As will be noted from Article III, paragraph 10, of the preliminary contract for this project (attachment to Embassy despatch 738), the GOI has contracted to deliver a specified amount of palm fruit for the operation of the plant. Successful operation of the plant depends on adherence to this contract, and protection afforded the creditor against violation of such a contract would stimulate loans of this type. This also appears to be a consideration in the proposal for a coffee processing station as described in Embassy despatch 807. Mr. Carl Borchsenius and Mr. Shaw both wondered how they might be assured of a regular supply of coffee for processing, and whether or not a contract with the GOI for the delivery of a specified amount of coffee would provide them with the assurance they would need before establishing a processing plant.

High level GOI officials have expressed strong objection to conclusion of an investment guaranty agreement for the expressed reason that Indonesian Government policy is opposed to foreign "investment" as such, so that another term would have to be used such as "production sharing guaranty agreement" (TOAID A-1728). Section 221 of the F.A. Act would seem to provide considerable leeway in this connection. Moreover, it might permit individual guaranties even without prior conclusion of a basic bilateral agreement. We believe that it might be considerably easier, at least initially, to obtain GOI concurrence in individual guaranties rather than in advance negotiation of a basic agreement (Section-by-Section Analysis of Section 221(a).

With particular reference to Embtel 2134, we propose to urge the GOI to carry out an intention recently mentioned informally to Embassy and USAID personnel, i.e., to issue a note or letter to foreign governments calling attention to GOI policies favoring private foreign loans under production sharing arrangements and to spell out this policy in some detail. There is no assurance, however, that such a more detailed statement will in fact be issued. EMB/USAID continue to press for such a statement, and the Washington

OFFICIAL USE ONLY

agencies may wish to address the same question to the Indonesian Embassy in Washington. Specifically, Embassy/W might be requested to elaborate on President Sukarno's May 18 statement concerning production sharing arrangements as reported in Embassy despatch 806 dated 5/28/62, page 4.

However, stimulation of further interest by U.S. enterprises in production sharing possibilities need not await additional public announcements by the GOI. It would undoubtedly help attract additional U.S. enterprises if guaranties under the Investment Guaranty legislation were available for such arrangements and if the GOI were to indicate its willingness to participate in this program. Accordingly, EMB/USAID would appreciate earliest possible confirmation that: (1) production sharing arrangements as described in the above mentioned despatches are in fact eligible for investment guaranties; (2) such guaranties may be issued without use of the term "investment"; and (3) they may be issued even in the absence of the basic country-to-country agreement.

Confirmation as requested will permit us to pursue the matter with the GOI with the prospect of securing greatly increased participation of U.S. private capital, possibly aided by AID loans in Indonesia's economic development.

JONES

JM

OFFICIAL USE ONLY

0 0 9 0 6

ORIGIN/ACTION
Com - Scoffoni 8/6/62 AID 41

RM/R	REP	AF
2	1	
ARA	EUR	FE
		2
NEA	CU	INR
		5
E	P	IO
3		
L	FBO	AID
2		
4/FW 2		
AGR	COM	FRB
10	10	3
INT	LAB	TAR
7		2
TR	XMB	AIR
ARMY	CIA	NAVY
5	10	3
OSD	USIA	NSA
12		3

DEPARTMENT OF STATE

AIRGRAM

611.9843/7-1962
XR 898.0511

FOR RM USE ONLY

A-48
NO.

OFFICIAL USE ONLY

HANDLING INDICATOR

TO : DEPARTMENT OF STATE 1962 JUL 25 AM 8 19

FROM : Amembassy DJAKARTA DATE: July 19, 1962

SUBJECT : Production Sharing - Van Camp Seafood Industries Project

REF : Embassy airgram A-629 dated 6/28/62

The Van Camp Seafood Industries agreement with the P. N. Perikani for a tuna fishing project became operative several months ago (Embassy despatch 439 dated 12/29/61). While a copy of the agreement has not been supplied to the Embassy, it is known that for certain fishing rights in Indian Ocean territorial waters, Van Camp will operate five long-line fishing boats, freeze the catch in an old Dutch refrigeration plant being rehabilitated by Van Camp, and market the product, with an agreed percentage of the sales proceeds (rumored 25 per cent) reserved for Van Camp.

Harold Hutton, President of Refining Associates, who is financially interested in the project, supplied the following additional information on July 12. All of the equipment for the refrigeration plant, which is located at Djakarta harbor, has arrived or is en route, and it is expected that the plant will be ready to operate by the end of August. The freezing capacity of the plant is 30 tons daily, and the storage capacity, 500 tons. One Van Camp technician is now on the job, and two more will arrive shortly. Two fishing vessels are being purchased in Japan, and it is expected that these boats, together with three boats supplied by the GOI, will start operations at the end of August.

The next phase will be the purchase and operation of a floating freezer in North Sulawesi waters. Operating with the floating freezer will be two or more pole boats. The third phase will consist of the construction of a land-based freezer in the Menado area and the removal of the floating freezer to Ambon. At Ambon the floating freezer will be joined by two or more fishing boats, and in a final phase a land-based

OFFICIAL USE ONLY

FORM 4-62 DS-323

FOR DEPT. USE ONLY ☑ In ☐ Out

Drafted by: ECON:JAVanSwearingen:amo 7/17/62

Contents and Classification Approved by: ECON:JWLydman

Clearances: JAL

freezer will be built at Ambon. The American company is also interested in setting up one or more canneries, although this is not written into the present contract.

For the Ambassador:

Jack W. Lydman

Jack W. Lydman
Counselor of Embassy
for Economic Affairs

ACTION
FE-L

RM R	REP	AF
2	1	
ARA	EUR	FE
NEA	CU	INR
		5
E	P	IO
3		
L	FBO	AID
2		
AGR	COM	FRB
10	10	3
INT	LAB	TAR
7		2
TR	XMB	AIR
2		3
ARMY	CIA	NAVY
5	8	3
OSD	USIA	NSA
12		3

22

DEPARTMENT OF STATE

AIRGRAM

898.0511/7-2362
XR 611.9843

FOR RM USE ONLY

OFFICIAL USE ONLY

NO.

HANDLING INDICATOR

TO : DEPARTMENT OF STATE

(3)

FROM : Amembassy DJAKARTA

DATE: July 23, 1962

SUBJECT : Production Sharing, Lumber and Veneer - Nickey Bros-Nasipit Lumber Company

REF : Embassy airgram A-629 dated June 28, 1962; CERP D-13
AID 611.9843/6-2862

Representatives of the reference companies arrived in Djakarta on July 6 to survey the prospects for an investment in a lumber and veneer facility in the vicinity of Palembang, South Sumatra. After meetings in Palembang, including a visit to the proposed site 160 miles up the Musi River, and discussions with forestry officials in Bandung, the visiting lumbermen reported to the Embassy on July 18 that a tentative agreement has been reached with the Governor of South Sumatra for a production sharing arrangement along the following lines. Initially, a sawmill and veneer core stock mill will be constructed with payment therefor to be accomplished by means of a 25 per cent share of the output of the two mills. The investment in equipment, at this rate, would be paid out in only about one year. In addition, five per cent would be set aside for maintenance and replacement parts, and five per cent as a management fee. The organization would be entirely Indonesian, in the form of a joint company with participation by the Government of South Sumatra and a private concern known as Azisco, which has headquarters in Djakarta. American participation would be on a contractual basis with management of the facilities to be in the hands of technicians recruited by the American interests. American participation would be by means of a special arrangement between Nickey Bros. of Memphis, Tennessee and Mr. G. E. C. Mears, American, President and major stockholder of the Nasipit Lumber Company, Inc., Nasipit Agusan, Philippines.

Mr. Mears stated that a contract would be drafted along the lines outlined above for submittal to the Governor of South Sumatra and the Djakarta authorities within two weeks. The

OFFICIAL USE ONLY

FORM 4-62 DS-323

FOR DEPT. USE ONLY
[X] In [ ] Out

Drafted by: ECON:JAVanSwearingen:amc:gjt 7/20/62
Contents and Classification Approved by: ECON:JWLydman
Clearances:

00409

FORM FS-439G
6-1-60

OFFICIAL USE ONLY

Governor of South Sumatra expressed an interest in some of the special facilities provided for the workers at the Nasipit Lumber Company, including housing, schools, and medical service, and Mr. Mears indicated that provisions for similar facilities would be incorporated in his contract proposal. The Governor urged that the American interests consider the possibility of extending the proposed contractual arrangement beyond the pay-out period for the equipment investment; this being entirely in accord with the wishes of the American interests, prospects for extending the arrangement appear to be good.

This production sharing proposal is relatively modest in its initial phases. According to Mr. Mears the proposed veneer plant would have a capacity of about 15,000 metric tons annually which at current prices would be valued at about $900,000. The company, however, will be interested in expanding its operations if the initial phase proves to be profitable. Expansion might include operations in Kalimantan as well as South Sumatra with each facility to include a plywood installation as well as sawmill and veneer equipment.

For the Ambassador:

Jack W. Lydman
Counselor of Embassy
for Economic Affairs

OFFICIAL USE ONLY

0 0 9 1 0

INCOMING TELEGRAM *Department of State* ACTION COPY PERMANENT RECORD COPY

35
Action
AID
Info
L
FE
E
COM
RMR

OFFICIAL USE ONLY

Control: 19465
Rec'd: JULY 26, 1962
9:33 AM

DJAKARTA 165

FROM: DJAKARTA

TO: Secretary of State

NO: 165, JULY 26.

611.98413
898.25111

EMBASSY A-629, JUNE 28

INTEREST IN PRODUCTION SHARING CONCEPT GROWING AND RELIABLE SOURCES INDICATE PRESIDENT OR FIRST MINISTER WILL ISSUE POLICY STATEMENT NEAR FUTURE. FOREIGN OFFICE HAS REQUESTED COPIES ANY SUCH AGREEMENT MADE BY US COMPANIES OPERATING IN OTHER COUNTRIES AND SUGGESTS THERE MAY BE AGREEMENTS WITH COMPANIES IN INDIA, FOR EXAMPLE KAISER ALUMINUM. EMB RECOMMENDS COPIES SUCH AGREEMENTS BE SUPPLIED TO SERVE AS GUIDE LINES TO GOI IN PREPARATION POLICY STATEMENT AND POSSIBLY IMPLEMENTING LEGISLATION.

611.9843/7-2662

JONES

BAP

FILED

1

FILE-DC/T

OFFICIAL USE ONLY

REPRODUCTION FROM THIS COPY IS PROHIBITED UNLESS "UNCLASSIFIED"

• This copy must be returned to RM/R central files with notation of action taken •

ACTION ASSIGNED TO.	ACTION TAKEN	
NAME OF OFFICER & OFFICE SYMBOL	DATE OF ACTION	DIRECTIONS TO RM/R

ORIGIN/ACTION

AID-18

RM/R	REP	AF
2*	1	
ARA	EUR	FE 4*
NEA	CU	INR 5
E 3*	P	IO
L 2*	FBO	AID
		11/FW 2
AGR 10	COM 10*	FRB 3
INT 7	LAB	TAR
TR 2	XMB 2	AIR
ARMY	CIA 8	NAVY
OSD	USIA	NSA 3

(19)

DEPARTMENT OF STATE

AIRGRAM

611.9843/9-662

FOR RM USE ONLY

XR 898.05111

A-208
NO.

OFFICIAL USE ONLY

Air Pouch
HANDLING INDICATOR

TO : DEPARTMENT OF STATE 1962 SEP 12 AM 10 54

RM/AN-m-6-1.

ANALYSIS & DISTRIBUTION BRANCH

FROM : Amembassy DJAKARTA DATE: September 6, 1962

SUBJECT : Foreign Investment Climate in Indonesia - Summary of Developments in Production Sharing

REF : (A) A-170 dated August 24, 1962
(B) A-629 dated June 28, 1962
(C) CERP D-13

FILED SEP 27 1962

The production-sharing concept for the hard-currency financing of development projects has been officially announced, and the regulation itself, with a preliminary comment, is contained in Reference A. In this Airgram advantages to the Government of Indonesia and the private investor are pointed out, and arrangements already in effect or contemplated are described briefly. Recommendations are offered regarding publicity through International Commerce and other media.

From the standpoint of Indonesia, the advantages of this kind of an arrangement are as follows:

(1) It provides a means of securing private foreign capital and know-how.

(2) It avoids the fixed foreign obligations of ordinary foreign loans.

(3) It has some of the important advantages of equity investment compared to straight loans, because the manner of repayment involves the foreign party directly in the success of the enterprise.

(4) It avoids what Indonesia considers the principal disadvantage of foreign investment in its traditional form, viz, foreign ownership with which Indonesia associates political control.

OFFICIAL USE ONLY

FOR DEPT. USE ONLY
[x] In [ ] Out

FORM DS-323
4-62

Drafted by: ECON:JAVanSwearingen:lmb 8/31/62 Contents and Classification Approved by: ECON:PEWells

Clearances:

00412

From the standpoint of the contractor, the principle advantages appear to be as follows:

(1) The danger of nationalization is lessened since the local organization will be Indonesian, and not foreign.

(2) While the corporate organization will be Indonesian the foreign firm will retain management control, at least during the period of amortization.

(3) The contractor's investment is protected by the assurance that he will receivo a share of the product, which will have an established market value. In addition, it appears likely that the Central Bank will offer certain guarantees, and the Embassy hopes that the Department will give serious consideration to its suggestion that the AID/Washington Investment Guaranty Program be extended to production sharing arrangements (Embassy A-629 dated June 28, 1962) even if this has to be done on an unilateral basis.

(4) By providing not only for the initial capital investment but also the continuing requirements for imported supplies, spare parts and raw materials, if any, against appropriate increase in the contractor's share of the product, the contractor can completely protoct himself against the effects of foreign exchange shortages that may be suffered by other enterprises in Indonesia.

(5) Since the contractor will supply the equipment and services, he can anticipate, within reason, a very satisfactory profit margin on his procurement of equipment and supplies, and for his technical services.

(6) In those cases where the contractor controls the marketing, he will be influential in establishing an agreed price of the product, which will be the basis for payment of dollars into tho Foreign Exchange Fund of the Government of Indonesia share of the sales procoeds. Prices actually realized by the contractor upon sale or rosale abroad may be somewhat higher, particularly for certain products, such as plywood or fisheries products, for which the world price may not be definitive.

(7) In some cases, the investment will be small in relation to the value of the product. When the contractor handles the marketing, modest commissions therefrom may represent a very high ratio to investment, this return being in addition to the interest return provided for in the amortization plan (see particularly Embassy Despatch 738 dated May 7, 1962).

Arrangements in Effect or Pending

There have been four production sharing arrangements signed to date and it appears likely that two more such agreements will be signed in the near

future. The first of the four agreements was for the development of petroleum resources in North Sumatra (Embassy Despatch 554 dated January 26, 1961). This agreement was signed in 1960 with the Japanese Kobayashi Group. The second such contract was with an American concern for a fisheries project and was signed in December 1961 (Embassy Airgram A-48 dated July 19, 1962). The third agreement was with the Schantung Handels A.G. for a palm oil plant, a preliminary contract for which was signed on April 16, 1962 (Embassy Despatch 738 dated May 7, 1962). The fourth production sharing arrangement was with the Pan American International Oil Corporation (Embassy Airgram A-620 dated June 22, 1962), the contract for which was signed on June 15.

Prospective contractors include the Pacific Vegetable Oil Corporation of San Francisco (PVO) which submitted a draft proposal in mid-July for the construction of a large copra mill. The Government has completed its review of the draft, which has been found acceptable except for a few minor details. The U.S. company has been invited to send a representative to Djakarta to negotiate a final contract, and Mr. ROCCA, Chairman of the Board, is expected to arrive here on September 10. Six copies of the PVO draft and six copies of the Government's redraft are attached to this airgram.

A second project is being offered by Nickey Brothers, Inc. of Memphis, Tennessee, in collaboration with the Nasipit Lumber Company of Manila. They have proposed to the Government of South Sumatra the construction on the Musi River of a small sawmill and a veneer core stock mill. Details of this proposal were described in Embassy Airgram A-65 dated July 23, 1962.

In addition to the two projects immediately pending, there are several others that show promise. These include a second proposal for veneer and plywood manufacturing (Embassy Airgram A-629 dated June 28, 1962), two proposals for nickel mining in South Sulawesi (Embassy Airgrams A-629 dated June 28, 1962 and A-159 dated August 27, 1962), smallholders' rubber and coffee processing facilities (Embassy Despatch 807 dated May 28, 1962), and several sugar mills. The sugar mills have the interest of the Ralph M. Parsons Company and the resident representative of that company has had several detailed discussions with the Indonesian authorities. Parsons appears to have the assurance of up to $10 million of West European financing for the construction of perhaps five new sugar mills based on agreements similar to that already in effect for the palm oil mill in Medan (Embassy Despatch 738 dated May 7, 1962). The most recent negotiations deadlocked on the question of financing the necessary engineering and design work, the government taking the position that Parsons should supply the necessary financing whereas Parsons feels that this should be for the account of the Government of Indonesia.

The pending projects described above are of American origin. In addition, there is a West German offer for the construction of a coke plant in Djakarta and an expression of interest from Czechoslovakia regarding nickel mining in Sulawesi. According to Bank Indonesia there have been offers from several

other communist countries. The Japanese too are active, with proposals for sugar refining, corn cultivation, and veneer and plywood (Embassy Airgram A-205/ dated Sept. 6, 1962) but details are not immediately available. From the Indonesian side, the growing interest in production sharing arrangements has not yet reached a point where actual proposals are being made, but offers are being invited for projects covering the following fields: gold mining (Embassy Airgram A-62 dated July 23, 1962), sunflower seed, at least one more copra pressing mill, one more veneer and plywood mill, a copra fiber plant and a 100-ton capacity per day wood pulp mill. A detailed listing of new proposals has been promised by Bank Indonesia.

Administrative Arrangement for Handling Proposals

It appears that production sharing proposals will be passed upon by an interdepartmental committee with representation from the Department of Foreign Affairs, the Department of Production and the Bank, with a representative from the competent operating department as required. Pending formation of the committee, proposals from US concerns may be sent to Bank Indonesia, attention, Mr. Rachmad Saleh, Foreign Department.

Recommendations

The Embassy notes with satisfaction that the Department of Commerce has taken the initiative in publicizing the production sharing concept. The article appearing in International Commerce for July 16 made discreet use of the classified information supplied by the post. It has been well received by the Government and a limited distribution of the article will be made to interested officers and individuals.

It is suggested that further publicity be of the same nature, i.e., the case study approach. This is because the language of the regulation (Reference A) does not lend itself to public announcement, and any analysis of the regulation to play down the obviously bad features of the regulation probably would be found objectionable by this government. The provision that "Ownership and management of the enterprises are from the outset in Indonesian hands" is of course not acceptable to foreign investors, but it could not be tactfully pointed out in International Commerce that this language has been vitiated by the language contained in Paragraphs 15 and 23 of the Indonesian version of the PVO contract, attached herewith.

In drafting the announcement and in additional publicity, the Department may draw upon the substance of this airgram and previous messages on this subject. Classified information is limited to (a) the names of the companies which are negotiating contracts, i.e., the Shantung Handels A.G., the Pacific Vegetable Oil Company, Nickey Brothers, Inc., and NASIPIT Lumber Co.; (b) details of the Van Camp fisheries project (Embassy Airgram A-48 dated July 19, 1962); (c) the names of the U.S. concerns that have proposals under consideration, and

(d) certain of the advantages of production sharing arrangements to the foreign investor, namely the last three of the seven advantages described on Page 2 of this message.

For the Chargé d'Affaires ad interim:

Perry Ellis
Perry Ellis
Counselor of Embassy
for Economic Affairs

Attachments:

1) Pacific Vegetable Oil Corporation -
Preliminary Contract for the Financial and Technical Cooperation Agreement (six copies) Prepared by Pacific Vegetable Oil Co.

2) Pacific Vegetable Oil Corporation -
Tentative Contract for the Financial and Technical Cooperation Agreement (six copies) Prepared by the Indonesian Government

ORIGIN/ACTION

AID-18

RM/R	REP	AF
	1	
ARA	EUR	FE 4
NEA	CU	INR 5
E 3	P	IO
L 2	FBO	RM/AN-McG-1
		u/FW 2
AGR 10	COM 10	FRB 3
INT 7	LAB	TAR
TR 2	XMB 2	AIR
ARMY	CIA 8	NAVY
OSD	USIA	NSA 3

(19)

DEPARTMENT OF STATE

AIRGRAM

611.9843/9-662

FOR RM USE ONLY

XR 898.05111

HANDLING INDICATOR

A-209 OFFICIAL USE ONLY

NO.

TO : DEPARTMENT OF STATE

1962 SEP 12 AM 10 54

ANALYSIS & DISTRIBUTION BRANCH

FROM : Amembassy DJAKARTA DATE: September 6, 1962

SUBJECT: Production Sharing Regulation Interpreted

REF : CERP D-13; Embassy Airgrams A-170 FE dated August 29 and A-208 dated September 6, 1962 AID

In reference Airgram A-170 it was stated that clarification was being sought on certain language contained in the recently announced production sharing regulation for attracting private capital to Indonesia.

The most serious limitation placed on new foreign investment by the regulation is the languagecontained in Section I (2) a. to the effect that ownership and management of a particular production sharing enterprise must be in Indonesian hands. In actual practice, such is not the case, as illustrated in the Pacific Vegetable Oil Contract and explained in the reference airgrams. Other points on which clarification was needed has been obtained from Bank Indonesia.

SectionIII (1) a. "All of the equipment for a particular project shall become the property of the project, except the equipment loaned on the basis of a lease agreement." Interpretation: In A-170, the Embassy suggested that the last clause in this statement might be an escape clause making it possible for the foreign creditor to maintain ownership of the equipment during the life of the agreement. Such is not the case. Leased equipment, generally speaking, would be specialized equipment, such as construction machinery. Title would not pass to the project, but would be retained by the creditor, and it would be the responsibility of the creditor to remove or otherwise dispose of leased equipment at the conclusion of the agreement, possibly by sale on a depreciated basis.

Section IV. The "Government Guarantee" is to be taken to mean that the Government, in the case of an approved agreement, will assume full responsibility for the Indonesian party, as provided for

FILED SEP 27 1962

OFFICIAL USE ONLY

FOR DEPT. USE ONLY ☒ In ☐ Out

FORM 4-62 DS-323

Drafted by: ECON:JAVanSwearingen:ej JAVS 8/5/62

Contents and Classification Approved by: PELLIS

Clearances:

GPO 902667

0 0 4 1 7

in each agreement. It does not contain the sense of a "Bank Guarantee."

Section VII b. The provision that the Indonesian party is responsible for Rupiah financing means that the foreign partner to an agreement will not be required to convert hard currency to rupiah to meet rupiah expenses. This means that construction costs, duties and all operating costs denominated in rupiahs will be for the account of the Indonesian partner.

COMMENT:

By interpretation, the production sharing regulation should be attractive to U. S. investors. It is much more favorable to the foreign creditor than the PERMINA-KOBAYASHI oil agreement (Embassy Despatch 554 dated January 26, 1961) whereby inter alia, the Indonesian partner has management control, and title to the equipment passes to the Indonesian partner upon delivery. It is Permina's responsibility to reach the production goal as set forth in the agreement, and if the Japanese investment is not paid off in oil in the agreed ten years, it is Permina's responsibility to make up the difference, by means not set forth in the agreement. Without direct managerial control, the Japanese venture is not likely to be as successful as, for example, the Pacific Vegetable Oil Company project.

The above interpretations need to be tested by experience, and the first test is likely to be the Pacific Vegetable Oil agreement. B. T. Rocca, Board Chairman of the company will arrive in Djakarta September 10 to negotiate a final agreement, and he will be especially interested in the rupiah financing problem. If the Department has any other questions regarding the agreement, the Embassy will seek answers as promptly as possible.

For the Chargé=d'Affaires ad interim:

Perry Ellis

Perry Ellis
Counselor of Embassy
for Economic Affairs

3

INCOMING CABLEGRAM

RM/R COPY This copy must be returned to the RM/R document file

DEPARTMENT OF STATE

SECURITY CLASSIFICATION
CONFIDENTIAL

46
AID

L
FE
IGA
INR

RMR

DISTRIBUTION
ACTION

INFO.

FROM: DJAKARTA

NO.: TOAID 985, JANUARY 4, 4 P.M.

CONTROL: 1702
REC'D: JANUARY 4, 1963
4:41 A.M.

DJAKARTA TOAID 985

PRIORITY

JOINT EMBASSY/USAID MESSAGE

SUBJECT: EMERGENCY LOAN: SPARE PARTS AND RAW MATERIALS

REFERENCE: AIDTO 748 511.0098 898.(0)

RI HAS INFORMALLY APPROVED 17 MILLION DOLLAR LOAN. ASSUME AID/W WILL DRAFT TEXT LOAN AGREEMENT. SUGGEST RI EMBASSY AND AID/W NEGOTIATE POSSIBLE POINTS OF CONFLICT (IF THIS IS AGREEABLE, FONOFF WILL BE ASKED TO INSTRUCT INDO EMB). IN THIS CONNECTION, INDOS WOULD LIKE, IF POSSIBLE, BE GIVEN FIVE-YEAR GRACE PERIOD.

WE RECOGNIZE SUCH CONCESSION WOULD BE UNUSUAL BUT BELIEVE GENERAL BACKGROUND OF THIS LOAN JUSTIFIES SYMPATHETIC CONSIDERATION OF INDO REQUEST. SUCH ACTION BY US MIGHT STIFFEN INDOS IN FORTHCOMING NEGOTIATIONS WITH SOVIETS. WE HOPE AGREEMENT CAN BE READY FOR SIGNATURE DJAKARTA BY FEBRUARY 1.

JONES

CT

611.9843/1-463

OTHER AGENCY

1

SECURITY CLASSIFICATION
CONFIDENTIAL

(3)

INCOMING TELEGRAM *Department of State*

ACTION COPY

PERMANENT RECORD COPY

CONFIDENTIAL

55
Action
AID
Info
FE
E
RMR

Control: 8947
Rec'd: January 15, 1963
5:33 p.m.

FROM: Djakarta

TO: Secretary of State

NO: 1085, January 15, 3 p.m.

DJAKARTA 1085

JOINT EMBASSY/USAID MESSAGE

Reference: AIDTO 748, 795

When were copies of loan agreement airpouched to us?

JONES

DDD/18

611.9843/1-1563

FEB 5 10 23 AM '63

FILED

FILE COPY

(1)

• This copy must be returned to RM/R central files with notation of action taken

CONFIDENTIAL

ACTION ASSIGNED TO		ACTION TAKEN	
NAME OF OFFICER & OFFICE SYMBOL		DATE OF ACTION	DIRECTIONS TO RM/R

00420